

STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE

CLASS PLAN FILING INSTRUCTIONS

Every insurer wishing to change any rating factors or introduce a new Private Passenger Automobile program must complete a **Class Plan filing** in compliance with Title 10, Chapter 5, Subchapter 4.7 of the California Code of Regulations. These instructions and the attached filing format are available to assist insurers in this filing process. Use of the Class Plan application format is recommended. Send all applications to:

CALIFORNIA DEPARTMENT OF INSURANCE
RATE REGULATION DIVISION
Rate Filing Bureau
45 Fremont Street, 23rd Floor
San Francisco, CA 94105

No filing fee is required with this application.

Number of Copies of the Application and Acknowledgment

Each Private Passenger Automobile program must be submitted in a separate Class Plan filing. One (1) original and two (2) paper copies of the filing and supporting documents must be submitted. However, only one copy of Exhibit 14 - Underwriting Guidelines is required to be attached to the original Class Plan filing. Exhibit 14 - Underwriting Guidelines will not be available for public viewing. If acknowledgment of receipt is desired, an additional copy of CA-CP1 and a self-addressed, stamped envelope should be enclosed.

Programs Requiring a Class Plan

An insurer writing a program for the following types of vehicles, as defined in Section 660 (a) of the California Insurance Code, must file a class plan.

1. Motor vehicles of the private passenger or station wagon type that are not used as a public or livery conveyance for passengers, nor rented to others,
2. Other four-wheel motor vehicles with a load capacity of **1,500 pounds** or less, or
3. Motorcycles.

For motorhomes that meet the above definition and in which the premium for the vehicle is reported under Private Passenger Automobile Liability or Private Passenger Automobile Physical Damage on Page 14 of the Annual Statement, a class plan must be filed.

Antique vehicle programs for liability coverage must file a class plan. Antique vehicles programs for physical damage coverage only may be written under Inland Marine and do not need to submit a class plan.

Class Plan versus Prior Approval Rate Filings

INTRODUCTION OF NEW PRIVATE PASSENGER AUTOMOBILE PROGRAM: For new Private Passenger Automobile programs, a class plan filing is required as well as a rate filing for Liability and Physical Damage. Approval must be given for all of the filings before a company may start writing the new program.

In general, the class plan filing should contain:

- a listing of the applicable rating factors,
- sequential analysis of the rating factors (for "me too" filings, file number and copy of the sequential analysis of the other company must be provided),
- description of the process and criteria used to determine the selected relativities,
- calculation of rating factor weights,
- good driver discount factor and good driver discount guidelines,
- all applicable discounts and surcharges including the mature driver discount,
- underwriting guidelines and eligibility rules
- complete rate manual.

The prior approval filing should contain the base rate for each coverage including support for how the base rates were determined, projected ratemaking data (page CA-RA5 of the rate application), rate manual, expense fees and policy fees.

REVISION TO PREVIOUS CLASS PLAN: A class plan as well as a prior approval rate filing may be needed for some revisions to a class plan. If both relativities and base rates change, a class plan and rate filing should be filed even if the program remains revenue neutral. A revenue neutral class plan is one in which there is no projected change in premium for the same book of business.

If changes to the class plan result in a plan that is not revenue neutral, a rate filing should be submitted as well as a class plan filing.

For those filings in which relativities are changing but the class plan remains revenue neutral and there is no change in the base rates or non-rating factors, only a class plan filing is required.

Page CA-CP5 of the application can be completed for all revised class plans to show that the class plan is still revenue neutral or to show the magnitude of the changes. See Exhibit 7-*Revenue Neutral* for those programs which are revenue neutral.

Examples of changes requiring a class plan filing are changes in the relativities or introduction of a new rating factor or a change to the existing symbol for a particular automobile. Changes requiring a prior approval filing include changes in the physical damage base rates, changes in the increased limits factors, or changes in the expense fee.

Sequential Analysis, Weights, Relativities, and Data Availability

Sequential analysis must be completed to support the rating factors and relativities being proposed. Sequential analysis does not contemplate non-rating factors. The analysis must be completed in the manner described in Section 2632.7 of Title 10, Chapter 5, Subchapter 4.7. A copy of Sequential Analysis Guidelines published by the Department is available for reference. The first step of the sequential analysis should consider the variation in risk of loss due to driving record. Then, all of the variance of the first factor should be removed when developing the second rating factor, annual mileage, and so forth. Claims frequency and claims severity should be analyzed as the last steps.

The method selected to conduct the sequential analysis must consider the effects of the prior selected rating factors in the subsequent steps. Only those optional rating factors that are found to have a substantial relationship to the risk of loss in the sequential analysis should be selected.

Weights shall be calculated for each coverage. One weight should be calculated for each of the three mandatory factors. All optional factors should be calculated as a single factor weight per Section 2632.8.

If summary data is used, a computer file should be submitted in EXCEL format no higher than 5.0.

Exhibit 4-*Sequential Analysis* can be used to provide details of the sequential analysis. Exhibit 5-*Relativities for Each Rating Factor* should show how the relativities were derived from the sequential analysis.

For those companies that lack credible data on which to base the sequential analysis, insurers may use data maintained by another source as specified per Section 2632.9. Those insurers selecting this option must provide information relating to data availability. Exhibit 3-*Data Availability* explains what information should be included.

"Me-too" Filings

For those programs in which the data lacks credibility, the insurer may adopt the approved sequential analysis and rating factors of another company or ISO in its entirety. Or the insurer could adopt the approved sequential analysis and rating factors from one or more companies and/or ISO in accordance with Section 2632.9. These type filings are referred to as "me-too" class plans.

For a company wishing to adopt ISO class plan, the company should state its intent to adopt the ISO class plan (the company does not need to submit a copy of the ISO plan), provide the selected relativities, submit its rate manual, and state the effect on the company's book of business by adopting the ISO plan.

A "me-too" company can adopt the approved relativities from another insurer. As such, the "me-too" company would not have to perform a separate weighting calculation, but the company needs to show how the adopted relativities would effect its book of business. If the plan is not revenue neutral, a separate rate filing would be needed.

If a "me-too" company chooses to rely on another company's class plan but selects different relativities, the "me-too" company must justify the selected relativities and factor weights must be calculated.

For "me-too" filings, the filer should identify the company and Department Class Plan Filing Number of the plan it wishes to adopt. In addition, the filer must provide a copy of the sequential analysis of the other plan.

Symbol and Vehicle Series Filings

Submission of automobile symbols is considered a separate type of filing under Class Plans and is treated as follows:

If a company files new ISO model year symbols OR its own new model year symbols using the same existing **approved** methodology, the filing will be processed as a symbol-class plan and given a new filing number.

If a company files to adopt ISO re-symboling or re-symbol its own symbols, the filing will be processed as a symbols-class plan and given a new filing number. The company should provide the overall premium effect and analysis of the methodology used to adjust symbols.

An annual filing for symbol and vehicle series is required per Section 2632.11.(h)-(i).

Discounts and Surcharges

Discounts and surcharges should be treated as rating factors. For example, discounts may be given for anti-lock braking systems, passive restraint, and anti-theft devices. Sequential analysis and weights are required.

Section 11628.3 of the California Insurance Code is still active and requires insurers to apply mature driver discounts where actuarially justified.

Good Driver Discount

Due to the "take-all-comers" provision of Section 1861.02 (b) (1) of the California Insurance Code, all good drivers must be written by an insurer regardless of the insurer's underwriting guidelines. In addition, a named driver exclusion must be offered to those good drivers that otherwise are not eligible for the good driver discount due to driving experience of another person. The rate manual corresponding to the class plan must reflect these two provisions.

Good driver discount guidelines must follow the requirements of Section 2632.13 of Title 10, Chapter 5, Subchapter 4.7. Filers should also be aware that compliance with California Insurance Code section 1861.16(b) will be enforced. This section states that:

" An agent or representative representing one or more insurers having common ownership or operating in California under common management or control shall offer, and the insurer shall sell, a good driver discount policy to a good driver from an insurer within that common ownership, management, or control group, which offers the lowest rates for that coverage. This requirement applies notwithstanding the underwriting guidelines of any of those insurers or the underwriting guidelines of the common ownership, management, or control group...."

Group Filings

The term "Group Filing" has two different meanings. First, several companies within a group may make a group filing. The Department refers to these as "Group" filings. In the second instance a company intends to apply different rates to a particular group of insureds per California Insurance Code section 1861.12. This type submission is referred to as a "Group Insurance Plan" filing.

Insurance Group filings

For this type filing if the insurance companies within a group use a common database to derive the sequential analysis, a group filing may be submitted. One complete group application and supporting documents must be submitted with a **separate CA-CP1 page for each company** within a group filing. With this option, the companies within the group must adopt the same rating factors and relativities.

Group Insurance Plan filings

When an insurance company wishes to apply different rates for a specific group per Section 1861.12, the rates must be supported by the data collected from the specified group. The company needs to maintain a separate database, complete its own sequential analysis, and establish separate rates.

Required Exhibits

The following is a summary of exhibits that should be attached to the application. Indicate the appropriate exhibit number in the upper right hand corner of the page. In addition, number the pages in each exhibit in consecutive order.

Exhibit 1-Explanatory Memorandum

Indicate the purpose of the filing and provide a summary of proposed changes within the filing.

Exhibit 2-Filing History

Provide a list of all the previous rate, class plan, and symbol filing numbers that have been made to the California Department of Insurance for this program within the last three years.

Exhibit 3-Data Availability

This exhibit should be completed when data required by Section 2632.9 of Title 10, Chapter 5, Subchapter 4.7 is not available to an insurer. Include the following information in this exhibit:

1. Provide reasons why the insurer's data are unavailable, with appropriate references to the practices of other comparably situated insurers.
2. Justify the use of the substitute data proposed. Include support for any modification made to the substitute data as applied to the insurer's class plan. Discuss other feasible alternatives to using the substitute data.

3. Provide a plan for collecting the data.

Exhibit 4-Sequential Analysis

Complete this exhibit to show the sequential analysis. For those insurers adopting the sequential analysis of another source, state the class plan file number of the other plan.

This exhibit should describe how the sequential analysis was conducted. Indicate the statistical method that was used. Give the order in which the rating factors were put into the sequential analysis. Provide the results of the sequential analysis. Summarize how the sequential analysis was used to determine which optional rating factors should be selected. A paper entitled "Sequential Analysis Guidelines" has been prepared by Department staff which may be used as a reference. The sequential analysis should be based upon loss data that has the effect of non-rating factors removed. For liability coverages this means capping loss at the minimum liability limits. For physical damage coverages this means adjusting losses to reflect a common deductible as well as adjusting the loss data for the vehicle symbol, value, model, etc.. Refer to the attached Table I for data reporting format.

Exhibit 5-Relativities for Each Rating Factor

For each rating factor, provide a breakdown of the categories per factor and the relativities. Explain how the categories were determined and justify the groupings. (For example, for driving record, explain why two categories were selected--0-1 and 2+ points rather than five categories--0, 1, 2-3, 3-4, and 5+ points.) Explain and support how the selected relativities were derived from the sequential analysis. If relativities are being revised, display the current relativities as well as the proposed relativities.

For those insurers adopting the sequential analysis of another company, the same relativities should be adopted as the relativities are based on the sequential analysis. Provide a copy of the relativities of the adopted plan. Any deviations from the other company's relativities must be supported.

Exhibit 6-Factor Weights

Show detailed calculation of the four factor weights for each coverage. One weight for each of the three mandatory factors listed in Section 2632.5(c)(1) through (3) and one for all the optional factors from Section 2632.5(d) taken together as a single factor weight. Factor weights should be calculated as per Section 2632.8. The attached Table II outlines the reporting format.

Exhibit 7-Revenue Neutral

Provide and support the methodology utilized to maintain a revenue neutral plan. This explanation could include:

Computer rerating of each policy to verify that the plan remains revenue neutral.

For revenue neutral plans without adjustments to the base rate, the old combined average relativity should match the new combined average relativity. If the base rates are being adjusted by an offset (of the new to old relativities), a prior approval rate filing should be made.

Exhibit 8-Symbols and Vehicle Series

This exhibit should be completed when an insurer is introducing its own symbols or revising existing symbols. Those insurers adopting the Insurance Services Office symbols without deviation, identify the ISO Circular number and edition.

Describe and support how the symbols were established or why the symbols should be adjusted. Support could include damageable studies or data for the Highway Loss Data Institute (HLDI) or the Department of Motor Vehicles (DMV).

Every insurer that does not use auto symbols, but which uses make, model, value, cost of repair, as factors in determining rates and premiums for private passenger automobile insurance must submit its methodology for determining such factors, and all values and relativities associated therewith. Any subsequent changes in methodology must also be submitted for approval.

Exhibit 9-Market Dislocation

Explain any expected market dislocations due to the changes in the proposed class plan. The attached Table III specifies the data reporting format.

Exhibit 10-Development of Rate Manual

Show how rates in the rate manual in Exhibit 14 were developed from relativities and base rates.

Exhibit 11-Rating Logic

Using the following examples, show how a policy premium is determined. Describe the rating logic, and demonstrate that the good driver discount (if applicable) is applied as the last step of the calculation. If there is insufficient information in the following examples for your rating plan, specify any additional assumptions that you make, e.g., if you do not have a \$200 collision deductible option, select the closest deductible in your rating plan and so specify.

Example 1

Bodily Injury (BI)15,000/30,000
Property Damage (PD).....5,000
Medical Payment (MP).....2,000
Uninsured Motorist BI.....15,000/30,000
Uninsured Motorist PD.....3,500

Single Male, licensed 2 years, 2.4 GPA.
One at fault accident, which resulted in \$1000 property damage
Drives 15 miles each way to school. 15,000 annual miles
Liability, MP, and UMBI and PD coverages, Single vehicle.
Zip code: 90036 (Los Angeles)

Examples 2 and 3

Bodily Injury (BI).....100,000/300,000
Property Damage (PD).....50,000
Medical Payment (MP).....5,000
Uninsured Motorist BI.....30,000/60,000
Collision Deductible Waiver
Comprehensive Deductible \$100 Collision Deductible \$200

Example 2 - Single Female

Licensed 22 years. No Violations.
1996 Honda Accord LX, 4 cyl., 4-door sedan.
Driven (to work) 20 miles each way. 16,000 annual miles.
Zip code: 92714 (Irvine)

Example 3 - Family Risk

Husband (licensed 28 years), wife (licensed 26 years),
both principal operators, both have 1 speeding ticket each.
Son, Occasional operator. Licensed 1 year. Clean record. Drives Ford
for pleasure only.
1995 Ford Explorer XLT, 4 door, 2 wheel drive. Driven by wife, 10 miles
each way to work, 12,000 annual miles.
1993 Toyota Camry LE, 4-cyl., 4-Dr sedan. Driven by husband, 35 miles
each way to work. 20,000. annual miles.
Zip Code: 94605 (Oakland)

Exhibit 12-Good Driver Discount Guidelines

Provide the good driver discount guidelines.

Exhibit 13-Rate Manual

Provide the proposed rate manual for this program.

Exhibit 14-Underwriting Guidelines

Submit the underwriting guidelines for the program being filed.